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C O N F I D E N T I A L SECTION 01 OF 02 ATHENS 003264

SIPDIS

E.O. 12958: DECL: 12/21/2015

TAGS: [ECON](#) [ENRG](#) [EPET](#) [GR](#)

SUBJECT: GREEKS SEEK ROLE IN TRANSIT OF CASPIAN ENERGY TO WESTERN EUROPE

REF: A. BAKU 1918

1B. ANKARA 6769

Classified By: Charge Countryman for reasons 1.4 (b) and (d)

11. (C) Summary: In recent years, Greece has been quietly moving towards greater energy integration with its regional neighbors, playing on its membership in both NATO and the EU, its economic leadership in the Balkans, and its strategic location between Caspian energy sources and Western European energy markets. Increasingly Greece sees itself as more than a simple consumer of energy resources; in particular it has taken significant steps to present itself as an energy transit country. Projects like the Greek-Turkish-Italian natural gas pipeline and the Burgas-Alexandropoli oil pipeline highlight this new vision and direction. Although Greece's domestic energy market needs further liberalization, the GoG's leadership in the Athens Forum in the Energy Community of South Eastern Europe, culminating in last October's signing in Athens is emblematic of the GoG desire to take a leadership role in the broader energy concerns of the region. Greece's interest, properly encouraged and supported, could be used to further USG policy interests in the effective utilization of Caspian energy resources, especially as regards transport route diversification. End summary.

Setting

12. (SBU) Greece is a net energy importer as well as one of the most petroleum intensive economies in the EU. For years, these facts kept Greece preoccupied solely with procuring sufficient energy for its own needs. This insularity was reinforced by Greece's state-run energy sector which showed little initiative to expand beyond its captive domestic market. With the economic opening of the Balkans in the 1990s, however, and under increasing EU pressure to liberalize, the Greek energy sector began to explore international opportunities more seriously. Chief among these efforts are a natural gas line connecting Turkey to Italy across Greece, and a proposed Bosphorous petroleum bypass pipeline from the Burgas port in Bulgaria to the Greek port of Alexandropoli. Since 2002, Greece has also pushed aggressively to create a regional energy market through the Stability Pact for South Eastern Europe, which would facilitate the trading of gas and electricity in the Balkan region, including Turkey.

13. (C) These efforts highlight Greece's perceived dual role: a transit country for raw energy sources from the Caspian to markets in Western Europe (with the possibility to run energy to markets in the Balkans as well), and a processed energy market hub for the Balkans, buying, selling and conveying electricity (and gas) to and from the Balkans, Turkey and Italy. In both cases, Greece can provide a relatively advanced and stable alternative outlet for Caspian energy currently dominated by Russian energy concerns.

Greek Efforts

14. (U) In 2003 Greece and Turkey signed an MOU to build a natural gas pipeline from western Turkey to northeastern Greece. The move was seen as a small, but significant step towards better relations between the two countries, as well as providing a platform for Turkey and Greece to work together to deliver Central Asian natural gas to Western Europe. Continuing its "pipeline diplomacy," in November of 2005 the GoG signed an MOU with Italy to extend the pipeline under the Ionian sea to the Italian coast. Construction on the 8-12 billion cubic meters (bcm) Greek-Turkish section of the interconnector began in 2004 and is scheduled to be completed in late 2006. Construction of the 4-6 bcm Greek-Italian portion is scheduled to begin in early 2007, with a scheduled completion in 2010. This gas line could also easily be expanded to include Albania by a spur from Igmenitsa.

15. (U) Concurrently Greece has continually championed the Burgas-Alexandropoli (B-A) petroleum pipeline as a bypass to Turkey's overcrowded Bosphorus Straits. As envisioned, oil tankers in the Black Sea would offload Caspian crude at the Bulgarian port of Burgas, which would then be piped via the B-A to the Greek port of Alexandropoli to be loaded onto

tankers for delivery to final destinations. While the past decade has seen a steady increase in the global demand for crude, continued development of oil reserves in the Caspian region, and a significant increase in daily traffic through the Bosphorus. However, a contentious debate over costs has kept the B-A pipeline (as well as competing bypass suggestions) in the planning phase. The tipping point for construction of a bypass may have been reached, however; many experts believe the Bosphorus strait cannot physically handle tanker traffic exceeding 3-3.5 million barrels a day. With Central Asian capacity alone expected to exceed 3 million barrels per day by 2008, a bypass seems ever more necessary.

16. (C) Already a major overall investor in the Balkan countries, Greece is making its presence felt in the energy sector as well. Public Power Corporation (DEH), Greece's para-statal electricity concern, is currently bidding on a 900 MW power plant in Bulgaria, while Hellenic Petroleum, the para-statal Greek petroleum company, already owns a refinery in Macedonia as well as several hundred retail stations across the Balkans. Additionally, the October signing of the Energy Treaty for South Eastern Europe (SEEC) in Athens showed a new face of Greek policy leadership. The treaty aims to create a single stable regulatory framework for the trans-border trading of energy. Greece, which pushed hard for this treaty, currently has little exportable surplus, but acts as a transit country already for Italy, Albania, and Bulgaria, as well as buying surplus electricity from Bulgaria. However, if Greek energy sector reforms continue, it could develop surplus for export, as well as possibly become a transit route for Turkish electricity to the Balkans if the Turks decide to build nuclear power plants.

Concerns

17. (C) Like all things in the Balkans, there are plenty of complications. On the gas interconnector, DEPA, the Greek para-statal natural gas company, views Azerbaijan's Shah-Deniz field as the major supplier to its trans-Greece line. On several occasions over the past year DEPA officials have expressed concern over their inability to conclude a formal supply side agreement with their Azeri counterparts (SOCAR), as well as their concern over being reliant solely on Russian gas (GAZPROM) via Turkey (BOTAS). (Note: Recent Baku reporting (ref a) suggests that the failure to conclude an agreement lies with the Greek side, with SOCAR willing to sign a sales and purchase agreement at any time. Further follow-up may be necessary to determine if this apparent disconnect is simply miscommunication or a real issue. End note.)

18. (C) On the B-A pipeline, the Greeks have been pushing hard and the idea may be building momentum. However, B-A faces competition from a Turkish bypass solution that would run from Samsun to its port city of Ceyhan, which has support from the Italian private sector (ref b). Nevertheless, TNK-BP and Chevron continue to hover on the periphery of the B-A deal and have commented on their continued interest to Ukrainian contacts. Industry officials have also noted that given the growing development of broader Caspian oil reserves and ever increasing global demand, the viability of two Bosphorus bypasses is not out of the question.

19. (C) Finally, the entire South East Europe region suffers from under-developed or decayed power transmission and distribution systems (needing over 10 billion dollars to renovate according to a World Bank study). Lack of high voltage transmission lines in particular will slow the progression of an integrated and effective electricity trading regime. The GoG has been engaged in energy sector reform, but will need to move aggressively before much can be made of its geographical position as a transit country for electricity from Turkey or Italy to its northern Balkan neighbors.

Comment

10. (C) Greek interest in Caspian energy is two-fold; first, the GoG wants to show it is a Balkan leader (both politically and economically) as well as a reliable and modern international partner. Second, Greece stands to benefit from the transit and distribution of energy through its territory. Beyond the transit fees, Greek gas and electricity companies are clearly attracted to the higher margin opportunities in the regional export market which will be expanded by a central Greek position in any South East European energy network. An expanded Greek regional energy role serves USG interests in terms of a broader, more diverse, and secure transit system for the significant resources of the Caspian basin. Greece's strategic position in the region could prove to be a key component of any overall strategy to provide non-Russian transit routes for Caspian energy destined for Western Europe. For the U.S. to take best advantage of such a Greek role, we will need to maintain a close dialogue with the GoG. End comment.

COUNTRYMAN